CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2008

CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

JUNE 30, 2008

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11

Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITORS' REPORT

To the Members of the
California Infrastructure and Economic Development Bank
Sacramento, California

We have audited the accompanying financial statements of the California Infrastructure and Economic Development Bank (I-Bank), a component unit of the State of California, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of I-Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements of the I-Bank are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of California that applies to the transactions of the I-Bank. They do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the I-Bank as of June 30, 2008, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. The Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

October 14, 2008

2880 Gateway Oaks Drive, Suite 100 • Sacramento, CA 95833
101 Parkshore Drive, Suite 100 • Folsom, CA 95630
Phone: 916.646.6464 • Fax: 916.929.6836 • gilbertcpa.com

Introduction

The following Management's Discussion & Analysis (MD&A) provides an overview to the financial statements of the California Infrastructure and Economic Development Bank (I-Bank), a description of its activities and an analysis of the financial position of the California Infrastructure and Economic Development Bank Fund (CIEDB Fund) and the California Infrastructure Guarantee Trust Fund (Guarantee Trust Fund) for fiscal year ended June 30, 2008 (collectively, the CIEDB Fund and the Guarantee Trust Fund are the Funds).

To provide additional funding for the Infrastructure State Revolving Fund (ISRF) Program, the I-Bank issued revenue bonds on March 18, 2004 and December 17, 2005 (ISRF Program Bonds). This audited financial report for the I-Bank is required under continuing disclosure agreements related to the ISRF Program Bonds. This audit covers the financial activities of the I-Bank and both its funds, and is slightly broader in scope than that required in the ISRF Program Bonds continuing disclosure agreements, which only required a report for the CIEDB Fund.

The information presented in this section should be read in conjunction with the financial statements and notes that follow this section.

The I-Bank and Current Programs

The I-Bank is a State of California (State) financing authority whose mission is to finance public infrastructure and private development that promote economic growth, revitalize communities and enhance quality of life throughout California. The I-Bank has broad statutory powers to issue revenue bonds and provide loans, lease financing and other forms of financing, including the provision of credit enhancements, for a wide variety of public infrastructure and economic development projects. The I-Bank's current operations are funded solely from fees, interest earnings and ISRF Program loan[1] repayments.

The I-Bank's major programs include the ISRF Program, which is a revolving loan program that provides low-cost financing to local government entities for sixteen categories of public infrastructure projects, and a variety of conduit revenue bond financing programs, including the Industrial Development Bond Program for manufacturing and processing companies, the 501(c)(3) Revenue Bond Program for nonprofit public benefit corporations, State School Fund Bond Program and the Public Agency Revenue Bond Program for governmental entities. Conduit bonds issued by the I-Bank are payable solely from the revenues generated by the underlying borrower, are neither backed nor guaranteed by either the State or the I-Bank, and do not involve the use of I-Bank funds.

Financial Highlights

- Net Assets increased by $7,998,220 from the previous fiscal year to a total of $258,447,575 due to earnings from operations.

[1] "Loan" is generically used to refer to a loan, a lease or an installment sale agreement.

- Total operating revenues were $15,041,276, a decline of $593,642 from the previous fiscal year, principally attributable to decreases in investment income and administration fee revenues that were not totally offset by an increase in interest on ISRF Program loan repayments.
- Investment income was $3,789,063, a decline of $905,598 from the prior fiscal year due both to commitment and disbursement of ISRF Program loans and reductions in the investment interest rates during the fiscal year.
- Program support expenses were $2,752,827 an increase of $427,006. The increase is primarily a result of inclusion of $236,000 for other post-retirement benefits obligations in accordance with Governmental Accounting Standards Board Statement No. 45, and general staff salary and benefits increases.
- Revenue bonds payable was reduced by $2,475,000 due to principal payments on ISRF Program Bonds.
- Operating income was $7,998,220 for the fiscal year, a decrease of $590,859 from the previous fiscal year, which is a result of the net decrease in total operating revenues.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the I-Bank. As discussed in Note 1, The Financial Reporting Entity, the basic financial statements herein are intended to present the financial position, change in financial position and cash flows of only the I-Bank. The financial statements do not purport to present the financial position of any other reporting entity.

Overview of Financial Statements

This MD&A is an introduction to the I-Bank financial statements and accompanying notes. The financial statements of the I-Bank are presented as a special purpose governmental entity engaged primarily in financing activities providing loans to local governmental entities, providing conduit revenue bond financing to private businesses, nonprofit entities, and other state and local governmental entities, as well as the authority to provide credit enhancements such as guarantees. The financial statements provide both short-term and long-term information about the Funds' financial position with which the reader can assess the I-Bank's fiscal condition as of the end of the fiscal year. The financial statements have been prepared using the accrual basis of accounting. The financial statements include the following three statements:

- The *Statement of Net Assets* presents information on the assets and liabilities of the Funds and the I-Bank, with the difference between the assets and the liabilities reported as net assets. Over time, increases or decreases in net assets are expected to serve as a useful indicator of whether the financial position of the Funds are improving or deteriorating.
- The *Statement of Revenues, Expenses and Changes in Net Assets* presents information reflecting how the net assets of the Funds and the I-Bank changed during the past year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statement of Cash Flows* reports the cash flows from operating activities and investing activities, and net cash provided by operating activities.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

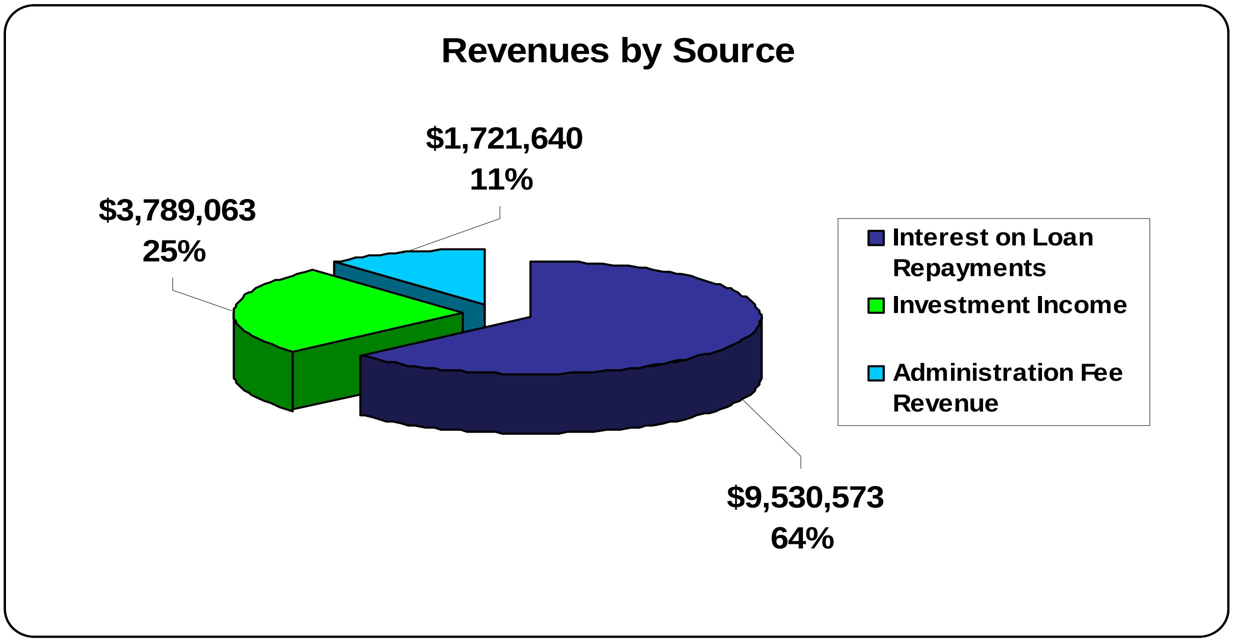
Net Assets

The I-Bank net assets as of June 30, 2008, were $258,447,575, all of which were restricted. Net assets increased by $7,998,220 from the previous fiscal year, directly as a result of earnings from operations.

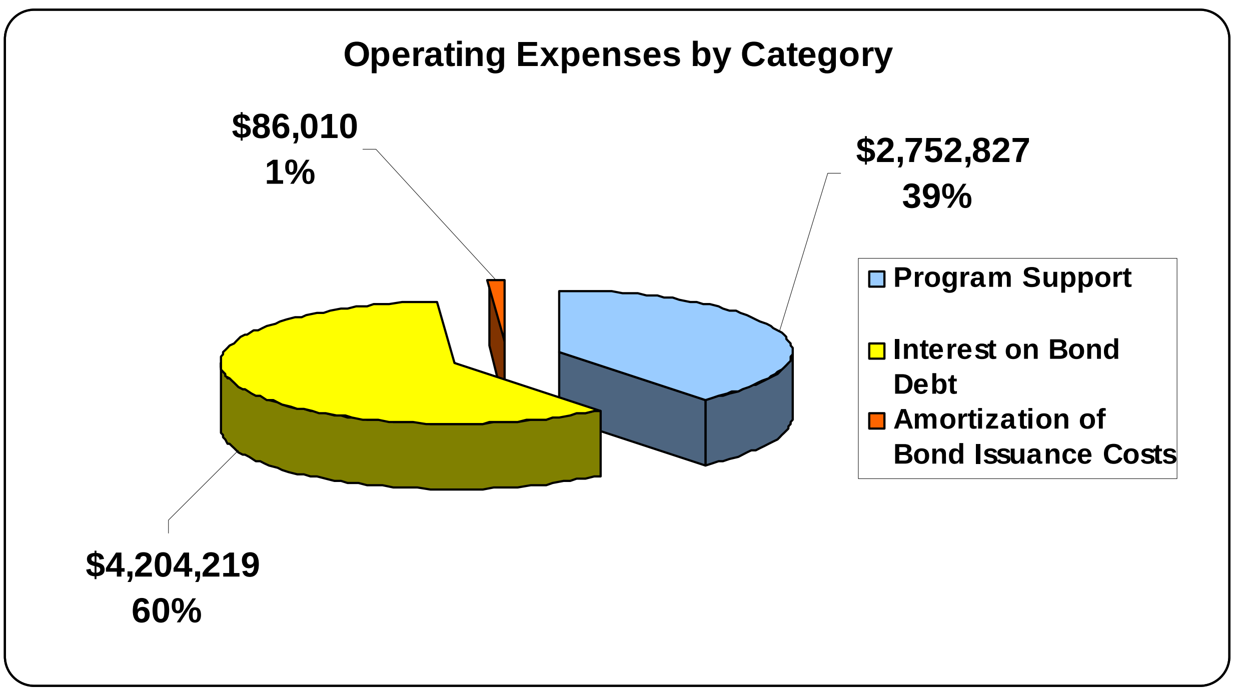
Table A-1

	2007-2008	2006-2007	% change
Current Assets	$114,674,674	$115,103,864	.4%
Non-Current Assets	$305,299,086	$299,581,900	1.9%
Total Assets	**$419,973,760**	**$414,685,764**	**1.5%**
Current Liabilities	$48,462,015	$40,551,780	19.5%
Non-Current Liabilities	$113,064,170	$123,684,629	-8.6%
Total Liabilities	**$161,526,185**	**$164,236,409**	**-1.7%**
Net Assets	**$258,447,575**	**$250,449,355**	**3.2%**
Total Liabilities and Net Assets	**$419,973,760**	**$414,685,764**	**1.3%**

The I-Bank's total operating revenues for the fiscal year ending June 30, 2008, were $15,041,276, a 3.8% decrease from the previous fiscal year. The decrease in total operating revenue is due to a decline in investment income, which is attributable to a reduction in uncommitted cash and bond funds due to new ISRF Program loan commitments and a general decline in investment interest rates during the fiscal year. The chart below reflects revenue by source and its related percent of total operating revenues:



Total operating expenses for the fiscal year ending June 30, 2008 were $7,043,056, a nominal .04% decline from the previous fiscal year. While total operating expenses were flat, increases in program support costs offset a reduction in interest on bond debt during the fiscal year. The following chart reflects expenses by source and its related percent of total operating expenses:



Operating income for the fiscal year ending June 30, 2008, was $7,998,220, a decrease of 6.9% over the prior fiscal year. The following table summarizes the operating activity for the fiscal year:

Table A-2

	2007-2008	2006-2007	% change
Operating Revenues	$15,041,276	$15,634,918	-3.8%
Operating Expenses	$7,043,056	$7,045,839	-.04%
Operating Income	$7,998,220	$8,589,079	-6.9%
Net Assets, Beginning of year	$250,449,355	$241,860,276	3.6%
Net Assets, End of year	$258,447,575	$250,449,355	3.2%

Budgetary Information

All I-Bank funds are continuously appropriated without regard to fiscal year to support the I-Bank with the exception of funds for general administration, which must annually be approved by the State Legislature. Continuous appropriation authority means that no further appropriations are necessary to expend funds held in the State Treasury. However, not all I-Bank funds are held in the State Treasury. The bond trustee (defined below) for the ISRF Program Bonds holds money outside the State Treasury.

Debt Administration

I-Bank administers the ISRF Program, a leveraged revolving loan program. Initial ISRF Program loans were funded with previous State General Fund appropriations. The I-Bank issued $51.37 million in revenue bonds in March 2004 and $52.80 million in December 2005 to provide additional funding for ISRF Program loans. The ISRF Program Bonds were sold without a credit enhancement, and were initially rated AA, Aa2, and AA by Fitch Ratings, Moody's Investors Service and Standard & Poor's, respectively. Subsequent to the end of the fiscal year, $48.4 million of ISRF Program bonds were sold in September 2008, also without credit enhancement (2008 ISRF Program Bonds). Upon the issuance of the 2008 ISRF Program Bonds, Fitch Ratings and Standard & Poor's raised the ratings on the ISRF Program Bonds to AA+, citing proactive and strong program oversight and management, and thorough ongoing surveillance of existing loans as key factors to the high credit ratings on the bonds.

Existing ISRF Program loans are either funded from previous State General Fund appropriations, interest earnings or administration fee revenue, or the proceeds of previously issued ISRF Program Bonds. The ISRF Program Bonds are structured under a master-series model, and are a limited obligation of the I-Bank payable solely from and secured by pledged ISRF Program loans.

The I-Bank also issues conduit bonds including Industrial Development Bonds, 501(c)(3) Revenue Bonds for nonprofit entities, State School Fund Bonds, and bonds for other state and local governmental entities. During the fiscal year, the I-Bank served as the conduit issuer for $1.03 billion of conduit bonds. Conduit bonds do not constitute a debt or liability of the State or of any political subdivision of the State, other than a limited obligation of the I-Bank payable solely from the pledged revenues of the conduit borrower, nor are a pledge of the faith and credit of the State or any political subdivision thereof, including the I-

Bank. As such, except for administration fee revenue related to the conduit bond programs, conduit bond financial information is not reflected on the I-Bank's financial statements.

Economic Conditions and Outlook

Two years into the housing slump, the national and California economies began to face additional headwinds-falling home prices, tight credit conditions, dysfunctional financial markets, soaring food and energy prices, and housing market downturns. At the end of the fiscal year and subsequent to the end of the fiscal year, two different investment providers of ISRF Program Bonds debt service reserve funds and other bond funds held under long-term collateralized guaranteed investment contracts had their ratings downgraded triggering provisions in the contracts resulting in liquidations of the investments in August and September 2008. The ISRF Program Bonds investments were reinvested in conservative liquid investments at rates below that earned on the contracts, which will likely have a downward impact on investment earnings in 2008-2009.

All ISRF Program loans were paid as agreed during the fiscal year and continued timely repayment of all loans is expected. One ISRF Program borrower did file bankruptcy during the prior fiscal year. However, this borrower continues to make all payments as agreed and is in compliance with all loan conditions other than the filing of the bankruptcy. The I-Bank continues to monitor the bankruptcy.

As mentioned above, subsequent to the end of the fiscal year, the I-Bank issued the 2008 ISRF Program Bonds totaling $48.4 million in ISRF Program Bonds to provide additional funding for ISRF Program loans. Due to current conditions in the financial markets impacting the unpredictability of rates and the depressed ratings of municipal bond insurers, it is anticipated that demand from local governmental entities for low-cost ISRF Program loans to finance a public infrastructure will be strong in 2008-2009.

The I-Bank does not receive any on-going State General Fund support and its programs continued to provide revenues sufficient to support operating expenses.

Requests for Information

This financial report is designed to provide interested parties with a general overview of the finances of the I-Bank and the Funds. Questions concerning the information provided in this report or requests for additional information should be addressed to Stanton C. Hazelroth, Executive Director, California Infrastructure and Economic Development Bank, 1001 I Street, 19th Floor, Sacramento, California 95814.

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

STATEMENT OF NET ASSETS
JUNE 30, 2008

	California Infrastructure and Economic Development Bank Fund	California Infrastructure Guarantee Trust Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and equivalents	$ 54,997,561	$ 23,456,271	$ 78,453,832
Investments - restricted	22,140,060		22,140,060
Pledged loans receivable - disbursed	9,193,806		9,193,806
Non-pledged loans receivable - disbursed	623,690		623,690
Interest and other receivables	4,082,339	180,947	4,263,286
Total current assets	91,037,456	23,637,218	114,674,674
NON-CURRENT ASSETS			
Investments - restricted	8,258,427		8,258,427
Pledged loans receivable - disbursed	217,814,866		217,814,866
Pledged loans receivable - undisbursed	57,066,670		57,066,670
Non-pledged loans receivable - disbursed	21,050,905		21,050,905
Unamortized bond issuance costs	1,108,218		1,108,218
Total non-current assets	305,299,086		305,299,086
TOTAL ASSETS	$ 396,336,542	$ 23,637,218	$ 419,973,760
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 229,293		$ 229,293
Revenue bonds payable	2,840,000		2,840,000
Undisbursed loan commitments	44,348,538		44,348,538
Bond interest payable	1,044,184		1,044,184
Total current liabilities	48,462,015		48,462,015
NON-CURRENT LIABILITIES			
Postemployment benefit obligation	236,000		236,000
Undisbursed loan commitments	12,664,370		12,664,370
Deferred loan origination fees	2,271,376		2,271,376
Deferred interest income	300,000		300,000
Revenue bonds payable	97,592,424		97,592,424
Total non-current liabilities	113,064,170		113,064,170
Total liabilities	161,526,185		161,526,185
NET ASSETS			
Restricted - Expendable:			
Statute	234,810,357	$ 23,637,218	258,447,575
TOTAL NET ASSETS	234,810,357	23,637,218	258,447,575
TOTAL LIABILITIES AND NET ASSETS	$ 396,336,542	$ 23,637,218	$ 419,973,760

The accompanying notes are an integral part of these financial statements.

CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008

	California Infrastructure and Economic Development Bank Fund	California Infrastructure Guarantee Trust Fund	Total
OPERATING REVENUES			
Interest on loan repayments	$ 9,530,573		$ 9,530,573
Investment income	2,784,778	$ 1,004,285	3,789,063
Administration fee revenue	1,721,640		1,721,640
Total operating revenues	14,036,991	1,004,285	15,041,276
OPERATING EXPENSES			
Program support	2,752,827		2,752,827
Interest on bond debt	4,204,219		4,204,219
Amortization of bond issuance costs	86,010		86,010
Total operating expenses	7,043,056		7,043,056
OPERATING INCOME	6,993,935	1,004,285	7,998,220
NET ASSETS, Beginning of year	227,816,422	22,632,933	250,449,355
NET ASSETS, End of year	$ 234,810,357	$ 23,637,218	$ 258,447,575

The accompanying notes are an integral part of these financial statements.

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

	California Infrastructure and Economic Development Bank Fund	California Infrastructure Guarantee Trust Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from investments	$ 3,117,793	$ 1,113,971	$ 4,231,764
Cash received from interest on loan repayments	9,092,355		9,092,355
Cash received from administration fees	1,721,640		1,721,640
Receipt of deferred loan origination fees	74,297		74,297
Receipt of loan repayments	8,054,172		8,054,172
Principal payment on bond debt	(2,745,000)		(2,745,000)
Payment of interest on bond debt	(4,558,423)		(4,558,423)
Payment of outstanding loan commitments	(30,764,261)		(30,764,261)
Payment of administrative expenses	(2,475,081)		(2,475,081)
Net cash provided (used) by operating activities	(18,482,508)	1,113,971	(17,368,537)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investments	(9,049,295)		(9,049,295)
Proceeds from sale of investments	24,660,930		24,660,930
Net cash provided by investing activities	15,611,635		15,611,635
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(2,870,873)	1,113,971	(1,756,902)
CASH AND EQUIVALENTS, June 30, 2007	57,868,434	22,342,300	80,210,734
CASH AND EQUIVALENTS, June 30, 2008	$ 54,997,561	$ 23,456,271	$ 78,453,832
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	$ 6,993,935	$ 1,004,285	$ 7,998,220
Adjustments to reconcile to net cash provided (used) by operating activities:			
Amortization of bond issuance costs	86,009		86,009
Amortization of bond premium	(333,330)		(333,330)
Amortization of deferred loan origination	(108,062)		(108,062)
Changes in assets and liabilities:			
Other receivables	(92,703)	109,686	16,983
Loans receivable	(22,710,088)		(22,710,088)
Undisbursed loans receivable	(49,437)		(49,437)
Bond interest payable	(20,874)		(20,874)
Accounts payable	41,746		41,746
Revenue Bonds Payable	(2,745,000)		(2,745,000)
Postemployment benefit obligation	236,000		236,000
Undisbursed loan commitments	49,437		49,437
Deferred loan origination	182,359		182,359
Deferred interest income	(12,500)		(12,500)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (18,482,508)	$ 1,113,971	$ (17,368,537)

The accompanying notes are an integral part of these financial statements.

1. THE FINANCIAL REPORTING ENTITY

The California Infrastructure and Economic Development Bank (I-Bank), a component unit of the State of California (State), is a public instrumentality of the State, organized and existing pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division 1 of Title 6.7 of the California Government Code commencing with Section 63000 (Act). The I-Bank has broad powers to provide financing for a wide array of infrastructure and economic development projects. The general mission of the I-Bank is to finance public infrastructure and private development that promote economic growth, revitalize communities and enhance the quality of life throughout California. The I-Bank is governed by a five-member Board of Directors (Board) consisting of the Secretary of the Business, Transportation and Housing Agency, who serves as the chair, the Director of the Department of Finance, the State Treasurer, the Secretary of the State and Consumer Services Agency and an appointee of the Governor.

The I-Bank issues loans to municipal entities pursuant to the Infrastructure State Revolving Fund (ISRF) Program. The ISRF Program provides low-cost financing to local government entities for a variety of infrastructure projects throughout the State. Eligible ISRF Program borrowers include cities, counties, redevelopment agencies, special districts, assessment districts, joint power authorities and non-profit corporations formed by local government entities. The I-Bank also serves as a conduit issuer of revenue bonds, loans, and commercial paper for private, nonprofit and other governmental entities (Conduit Bond Program).

The I-Bank has issued two series of revenue bonds (ISRF Program Bonds) to provide additional funding for the ISRF Program. Each series of bonds is issued under a master indenture (Master Indenture) and its own series indenture (Series Indenture). The ISRF Program Bonds include the Infrastructure State Revolving Fund Revenue Bonds, Series 2004 (2004 ISRF Program Bonds) in the initial principal amount of $51,370,000 and the Infrastructure State Revolving Fund Revenue Bonds, Series 2005 (2005 ISRF Program Bonds) in the initial principal amount of $52,800,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION /FUND FINANCIAL STATEMENTS

The basic financial statements of the I-Bank include the financial activities of the California Infrastructure and Economic Development Bank Fund (CIEDB Fund) and the California Infrastructure Guarantee Trust Fund (Guarantee Trust Fund) (collectively, the CIEDB Fund and the Guarantee Trust Fund are the Funds). The financial statements of the Funds do not purport to, and do not, present fairly the financial position of the State of California and the change in its financial position and its cash flow for the year ended, but are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the State of California that is attributable to the transactions of the I-Bank and the Funds as of June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

Monies in the Funds are held within the California State Treasury or by the bond trustee for the ISRF Program Bonds (Trustee).

CIEDB Fund – The CIEDB Fund is continuously appropriated without regard to fiscal year for the support of the I-Bank and is available for expenditure for the purposes stated in the Act. However, monies in the CIEDB Fund are available for expenditure for general administration only upon appropriation by the State Legislature. The CIEDB Fund is an enterprise fund.

Guarantee Trust Fund – The Guarantee Trust Fund is continuously appropriated to the I-Bank without regard to fiscal year for the purpose of guaranteeing all or a portion of the accounts and sub accounts within the CIEDB Fund, any contracts or obligations of the I-Bank or a sponsor, as that term is defined in the Act, and all or a part of any series of bonds issued by the I-Bank, by a special purpose trust, or by a sponsor. Monies may be transferred between the CIEDB Fund and the Guarantee Trust Fund when appropriate to accomplish the financing objectives of the I-Bank. The Guarantee Trust Fund is an enterprise fund.

B. ACCOUNTING PRINCIPLES

The accompanying financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting in accordance with generally accepted accounting principles. The Funds are maintained by the I-Bank in accordance with the principles of fund accounting. The I-Bank management has elected under Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The I-Bank management has elected the option, under GASB Statement No. 20, not to apply all FASB Statements and Interpretations issued after November 30, 1989.

In June 2004, GASB issued Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement addresses how state and local governments should account for and report costs and obligations related to post-employment healthcare and other non-pension benefits. Annual other postemployment benefit (OPEB) cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. The I-Bank has implemented GASB 45 as of June 30, 2008. See note 7.

The primary operating revenue of the I-Bank is financing income, representing interest on indebtedness received from ISRF Program borrowers. The I-Bank also recognizes as operating revenue the income on investments and fees charged to ISRF Program borrowers and Conduit Bond Program borrowers. Operating expenses primarily include interest expense on the ISRF Program Bonds and program support expenses.

C. CASH FLOW PRESENTATION

The statement of cash flows is provided in accordance with the provisions of GASB Statement No. 9 (GASB 9), *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. In accordance with GASB 9 and GASB 34, the direct method was used to report net cash flows from operating activities.

D. CASH, CASH EQUIVALENTS AND INVESTMENTS

The I-Bank considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash and investments held in either the State's Surplus Money Investment Fund (SMIF), an internal investment pool or money market funds held by the Trustee, are considered to be highly liquid and cash equivalents.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997,* establishes fair value standards for investments in participating interest earnings investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the I-Bank reports investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

In accordance with GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures (Amendment of GASB No. 3),* certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified relating to the following risks: interest rate, credit, custodial credit, concentrations of credit and foreign currency. In addition, other disclosures are specified including, but not limited to, the use of certain methods to present deposits and investments, highly sensitive investments and credit quality at year-end.

E. LOANS RECEIVABLE

The I-Bank enters into loan agreements, installment sale agreements and lease agreements (Loans) for the purpose of financing public infrastructure pursuant to the ISRF Program. A majority of the Loans are pledged to the ISRF Program Bonds or the Master Indenture. Loans receivable includes pledged and non-pledged loans. Pledged and non-pledged Loans receivable consists of two components – the disbursed and the undisbursed amount of Loans. The disbursed amount of pledged Loans receivable includes amounts drawn by the borrower for reimbursement or payment of project costs. The undisbursed amount of pledged Loans receivable includes the balance available to be drawn by the borrowers and draws submitted for payment but unpaid at year-end, and is offset by a liability for outstanding undisbursed loan commitments. The current portion of undisbursed pledged and non-pledged loan commitments is an estimate and is generally based upon projections provided by borrowers. These estimates are subject to change due to unforeseen weather conditions, construction delays related to change orders, delayed material shipment, subcontractor performance problems and other factors that cannot be reasonably predicted.

Prior to the issuance of the ISRF Program Bonds, Loans were funded solely by General Fund appropriations received from the State, Loan repayments, fee revenue and investment income. Since the issuance of the ISRF Program Bonds, Loans have been funded from the proceeds of the ISRF Program Bonds and/or from proceeds of Loan repayments, fee revenue and investment income.

There is no provision for uncollectible accounts as all Loans are current, and management believes all Loans will be repaid according to the scheduled terms.

F. RESTRICTED INVESTMENTS

Under the terms of each ISRF Program Bonds Series Indenture and the Master Indenture, separate restricted accounts were established with the Trustee.

G. ISSUANCE COSTS

Costs associated with the issuance of each series of the ISRF Program Bonds included bond counsel fees, trustee fees, rating agency fees, underwriting costs, financial advisor fees and other miscellaneous expenses. ISRF Program Bond issuance costs are amortized using the straight-line method.

H. BONDS PAYABLE

ISRF Program Revenue Bonds payable are stated at their unpaid balance plus any remaining unamortized premiums. ISRF Program Bond premiums are amortized using the effective-interest method over the terms of the respective ISRF Program Bonds. The ISRF Program Bonds are subject to mandatory and optional redemption prior to their stated maturity. The ISRF Program Bonds are not obligations of the State, and the taxing power of the State is not pledged for their payments. The obligation of the I-Bank to make such payments is a limited obligation, payable solely from the ISRF Program Loans pledged by the I-Bank.

I. LOAN AND CONDUIT BOND FEES

The I-Bank charges an origination fee and an annual servicing fee to ISRF Program borrowers. The origination fee is due no later than the date of the borrower's first disbursement and reported as deferred revenue when billed. The origination fee is recognized as revenue on a straight line basis over the life of the corresponding Loan. The annual servicing fee is recognized as income when charged. The I-Bank also charges an application, bond issuance and an annual fee to Conduit Bond Program borrowers. Conduit bond fees are recognized as revenue when charged.

J. INVESTMENT INCOME

Investment income is considered operating revenue because the ISRF Program Bonds were issued for the purpose of financing infrastructure projects. A portion of this financing comes from investment earnings.

K. PROGRAM SUPPORT

Program support expenses represent administrative expenses of the I-Bank. For the fiscal year ended June 30, 2008, program support expenses were $2,752,827.

L. CLASSIFICATION OF NET ASSETS

Restricted net assets represent amounts restricted due to external restrictions imposed by creditors, laws or regulations of the government, and restrictions imposed by law through constitutional provisions or enabling legislation or for programs established by the I-Bank.

All of the I-Bank's net assets are restricted by statute for programs established by the I-Bank and for programs administered pursuant to the Act.

M. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The I-Bank follows GASB Statement No. 40, Deposit and Investment Risk Disclosures. This statement requires the disclosure of the interest rate, credit, custodial credit, concentration of credit and foreign currency risks to the extent that they exist at the date of the statement of net assets. Additional disclosure details required by GASB Statement No. 40 and GASB Technical Bulletin 94-1, regarding cash deposits, investments, and derivatives, can be found in the June 30, 2008, Comprehensive Annual Financial Report of the State.

The I-Bank reports investments at fair value or cost, which is the contract value for non-participating guaranteed investment agreements and repurchase agreements. Where applicable, fair values are based upon market quotes from national security exchanges.

Due to the specified nature of the I-Bank's activities as established in the Act, all cash, cash equivalents and investments are considered restricted at June 30, 2008, since these funds cannot be spent for any purpose other than as established in the Act.

Investments are made pursuant to an investment policy originally adopted by the Board in March, 2006 (Investment Policy). The Investment Policy is annually reviewed by the Board, and was last amended in March 2007. The Investment Policy provides guidelines for the prudent investment of the Funds while maximizing efficiency and financial return in conformance with all applicable State statutes governing the investment of public funds, with the foremost objectives being safety and liquidity.

Pursuant to the Investment Policy, the I-Bank may, from time to time, direct the State Treasurer (Treasurer) to invest monies in the CIEDB Fund and Guarantee Trust Fund held within the State's centralized treasury system that are not required for its current needs, in any eligible securities specified in Government Code Section 16430 as the I-Bank shall designate. The I-Bank may direct the Treasurer to deposit monies in interest-bearing accounts in qualified public depositories as established by State law, including any bank in the State or in any savings and loan association in the State. The I-Bank may alternatively require the transfer of monies in the Funds to the SMIF for investment.

Government Code Section 5922(d) provides that bond proceeds and monies set aside and pledged to the repayment of bonds may be invested in securities or obligations described in the indenture for those bonds. Monies held by the Trustee in each of the funds and accounts under the ISRF Program Bonds Series Indenture and Master Indenture shall be invested and reinvested by the Trustee in permitted investments, as that term is defined in the Series Indenture, which mature or are subject to redemption by the owner thereof prior to the date such funds are expected to be needed.

Investments Authorized by the California Government Code and the Investment Policy

The table below identifies the investment types that are authorized by Government Code Sections 16430, 5922(d), 63025(d) and 63062(a) or the Investment Policy, where more restrictive. The table below also identifies certain provisions of the California Government Code, or the Investment Policy, where more restrictive, that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the Trustee that are governed by the provisions of the ISRF Program Bonds Series Indentures or the Master Indenture, but rather the general provisions of the California Government Code or the Investment Policy.

Authorized Investments

Authorized Investment Type	Maximum Maturity[1]	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating[3]
U.S. Treasury Securities	5Years	N/A[2]	N/A	N/A
Federal Agency Securities	5 Years	N/A	30%	N/A
State of California Securities	5 Years	30%	N/A	N/A
Local Agency Securities	5 years	30%	10%	N/A
Commercial Paper	180 days	30%	10%	A1/P1/F1
Bankers Acceptances	180 days	40%	10%	N/A
Negotiable Certificates of Deposit	5 Years	N/A	10%	N/A
U.S. SBA or U.S. FHA Securities	5 Years	25%	N/A	N/A
Export-Import Bank Securities	5 Years	10%	N/A	N/A
Guaranteed Student Loan Program Securities	5 Years	10%	N/A	N/A
Development Bank Securities	5 Years	N/A	10%	N/A
Corporate Securities	5 Years	30%	10%	A

1. Where the Investment Policy does not specify a maximum remaining maturity at the time of the investment, no investment shall be made in any security, other than a collateral security underlying a repurchase agreement or collateral for an investment agreement, which at the time of the investment has a term remaining to maturity in excess of five years.
2. N/A means neither the Government Code nor the Investment Policy sets a limit.
3. Standard & Poor's (S&P), Moody's Investors Services (Moody's), and Fitch Ratings, Inc. (Fitch) (collectively, Rating Agencies).

Investments Authorized by the ISRF Program Bonds Series Indentures or the Master Indenture

Investment of debt proceeds and Loan repayments that are held by the Trustee are governed by the provisions of the ISRF Program Bonds Series Indentures or the Master Indenture. Such investments are referenced in the Investment Policy, which references Government Code Section 5922(d).

Authorized Investments

Authorized Investment Type	Maximum Maturity[1]	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating
U.S. Treasury Securities	5 Years	N/A[2]	N/A	N/A
Federal Agency Securities	5 Years	N/A	30%	N/A
State of California Securities	5 years	30%	N/A	N/A
Local Agency Securities	5 years	30%	10%	N/A
Commercial Paper	180 Days	30%	10%	A-2/F-2/P-2
Bankers Acceptances	180 Days	N/A	N/A	A-3/F-3/P-3
Negotiable Certificates of Deposit	5 Years	N/A	N/A	A
U.S. SBA or U.S. FHA Securities	5 Years	N/A	N/A	N/A
Export-Import Bank Securities	5 Years	N/A	N/A	N/A
Guaranteed Student Loan Program Securities	5 Years	N/A	N/A	N/A
Development Bank Securities	5 Years	N/A	N/A	N/A
Corporate Securities	5 Years	N/A	N/A	A
Surplus Money Investment Fund	N/A	N/A	N/A	N/A
Repurchase Agreements	5 Years	N/A	N/A	A
Guaranteed Investment Contract	5 Years	N/A	N/A	AA
Collateralized Guaranteed Investment Contract	5 Years	N/A	N/A	A
Collateralized Forward Purchase Agreements	5 Years	N/A	N/A	A
Money Market Funds	N/A	N/A	N/A	A

1. The Investment Policy authorizes investing bond reserve funds and bond revenue funds beyond five years if prudent in the opinion of the Executive Director.
2. N/A means neither the Government Code nor the Investment Policy sets a limit.

Cash and equivalents at June 30, 2008 were as follows:

	Credit Rating S&P/Moody's	Fair Value
Deposits in Money Market Accounts	AAA/Aaa	$ 20,032,772
Deposits in Surplus Money Investment Fund	Not Rated	58,421,060
Total cash and equivalents		$ 78,453,832

The I-Bank has invested excess cash funds held within the State's centralized treasury system in SMIF. All of the resources of SMIF are invested through the Pooled Money Investment Account (PMIA). The PMIA investment program is designated by the Pooled Money Investment Board and is administered by the Treasurer. Investments in SMIF are stated at fair value.

Deposit and Investment Risk Disclosures

Interest Rate Risk. Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates. The prices of fixed income securities with a longer time to maturity, measured by duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with a shorter duration. Information about the sensitivity of the fair values of the I-Bank's investments to market interest rate risk fluctuations is provided by the following table that shows the maturity date of each investment.

Investment			Maturity Date
Surplus Money Investment Fund	$	58,421,060	212 days
Money Market Funds		20,032,772	28 days
2004 ISRF Program Bonds Collateralized Guaranteed Investment Agreement:			
2004 Reserve Account		3,534,443	October 1, 2032
2004 Debt Service and Obligation Accounts, and Revenue Fund		810,653	October 1, 2032
2005 ISRF Program Bonds Repurchase Agreement:			
2005 Obligation Account		22,140,060	December 1, 2008
2005 ISRF Program Bonds Collateralized Guaranteed Investment Agreement:			
2005 Reserve Account		3,913,331	October 1, 2033
Total	**$**	**108,852,319**	

Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the table below is the minimum rating required by, and where applicable, the California Government Code, the Investment Policy or the ISRF Program Bonds Series Indenture along with the investment's actual rating as of year end for each investment type.

		Minimum Legal Rating	Rating as of Fiscal Year End
Surplus Money Investment Fund	$ 58,421,060	N/A	Not Rated
Money Market Funds	20,032,772	A	AAAm/Aaa
2004 ISRF Program Bonds Collateralized Guaranteed Investment Agreement[2]	4,345,096	A[1]	AA-/Aa3
2005 ISRF Program Bonds Repurchase Agreement	22,140,060	A[1]	AA-/Aa2
2005 ISRF Program Bonds Collateralized Guaranteed Investment Agreement[2]	3,913,331	A[1]	AA/A2
	$ 108,852,319		

1. The entity must be rated in top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.
2. See subsequent events note 9 on page 27.

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the I-Bank will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

As of June 30, 2008, the I-Bank's had no funds on deposit with a depository financial institution.

The custodial risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a risk that the I-Bank will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

As of June 30, 2008, $30,398,487 of the I-Bank's investments were held in repurchase or investment agreements that are backed by collateral held by the collateral agent. Collateral levels are required to be at least 104% - 105% depending upon type of security. As of June 30, 2008, collateral levels ranged between 108.5% - 109%. Securities are held by a collateral agent and registered in the name of the Trustee.

Concentration of Credit Risk. Concentration of credit risk is the risk associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

The Investment Policy places no limitation as to the percentage of the portfolio that may be invested in the SMIF. Within the investments permitted by Government Code Section 16430, the Investment Policy places additional limitations on the percentage of deposits and investments that can be invested with any one entity in order to provide sufficient diversification by security type and institution to avoid incurring unreasonable and avoidable risks. Investments in any one issuer (other the U.S. Treasury securities, mutual funds, and the Surplus Money Investment Fund) that represent 5% or more of the I-Bank's investments are as follows:

Investment Provider/Investment Type		Reported Amount
AIG Matched Funding Corp./2004 ISRF Program Bonds Collateralized Guaranteed Investment Agreement	$	4,345,096
MBIA, Inc./2005 ISRF Program Bonds Collateralized Guaranteed Investment Agreement		3,913,331
Total	$	8,258,427

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Government Code does not allow investment in foreign currency.

4. PLEDGED LOANS RECEIVABLE

Pledged loans receivable consist of the Pledged Loans (i.e., those Loans, that were pledged to the ISRF Program Bonds Series Indenture and the Master Indenture by the I-Bank). The I-Bank agreed to make payments to the Trustee in amounts and at times sufficient to repay the ISRF Program Bonds as they become due. The principal and interest payments received during the fiscal year from these ISRF Program Bonds Pledged Loans are used to make the semi-annual debt service payments on the ISRF Program Bonds.

5. BONDS PAYABLE

The following is a summary of bonds payable at June 30, 2008:

Infrastructure State Revolving Fund Revenue Bonds, Series 2005, bearing 4.00% to 5.00% interest payable semi-annually, final maturity October 1, 2033	$ 49,530,000
Infrastructure State Revolving Fund Revenue Bonds, Series 2004, bearing 2.00% to 5.00% interest payable semi-annually, final maturity October 1, 2032	47,615,000
Plus: Unamortized Premiums	3,287,424
Net Bonds Payable	$ 100,432,424

The following is a schedule of the debt service requirements for the 2004 ISRF Program Bond as of June 30, 2008:

Year Ending June 30, 2008	Principal	Interest	Total Debt Service
2009	$ 1,340,000	$ 2,170,493	$ 3,510,493
2010	1,365,000	2,136,680	3,501,680
2011	1,395,000	2,084,743	3,479,743
2012	1,460,000	2,013,368	3,473,368
2013	1,530,000	1,938,618	3,468,618
2014-2018	8,460,000	8,725,439	17,185,439
2019-2023	9,835,000	6,604,625	16,439,625
2024-2028	11,300,000[1]	3,984,750	15,284,750
2029-2033	10,930,000[2]	1,027,613	11,957,613
Total	**$ 47,615,000**	**$ 30,686,329**	**$ 78,301,329**

[1] Principal payments in the amount of $7,085,000 are made from sinking fund payments for the 2029 term bonds.
[2] Principal payments in the amount of $5,290,000 and $5,640,000 are made from sinking fund payments for the 2029 and 2032 term bonds, respectively.

The following is a schedule of the debt service requirements for the 2005 ISRF Program Bond as of June 30, 2008:

Year Ending June 30,	Principal	Interest	Total Debt Service
2009	$ 1,500,000	$ 2,299,431	$ 3,799,431
2010	1,560,000	2,238,231	3,798,231
2011	1,635,000	2,174,331	3,809,331
2012	1,695,000	2,107,731	3,802,731
2013	1,780,000	2,038,231	3,818,231
2014-2018	10,185,000	8,872,806	19,057,806
2019-2023	12,895,000	6,009,156	18,904,156
2024-2028	8,815,000(3)	3,388,122	12,203,122
2029-2033	8,650,000(4)	1,160,444	9,810,444
2034	815,000(5)	20,375	835,375
Total	**$ 49,530,000**	**$ 30,308,858**	**$ 79,838,858**

(3) Principal payments in the amount of $8,815,000 are made from sinking fund payments for the 2028 term bonds.
(4) Principal payments in the amount of $2,030,000 and $6,620,000 are made from sinking fund payments for the 2028 and 2033 term bonds, respectively.
(5) Principal payments in the amount of $815,000 are made from sinking fund payments for the 2033 term bonds.

Bond activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Issued	Redeemed	Balance June 30, 2008	Current Portion June 30, 2008
2004 ISRF Program Bonds	$ 48,930,000		$ 1,315,000	$ 47,615,000	$ 1,340,000
2005 ISRF Program Bonds	50,960,000	$	1,430,000	49,530,000	1,500,000
Total	**$ 99,890,000**	**$**	**$ 2,745,000**	**$ 97,145,000**	**$ 2,840,000**

6. CONDUIT DEBT OBLIGATIONS

The I-Bank has served as the conduit issuer for over 170 bond issues for private, nonprofit and governmental entities. As of June 30, 2008, the aggregate outstanding amount of all conduit bond issues was approximately $5.1 billion, including bonds issued by the former California Economic Development Financing Authority, which were assumed by the I-Bank pursuant to Chapter 4, Statutes of 1998, and excluding the amount of conduit bonds that were issued by special purpose trusts created by the I-Bank. These conduit bonds do not constitute a debt or liability of the State or of any political subdivision of the State, other than a limited obligation of the I-Bank payable solely from the pledged revenues of the conduit borrower, nor are pledge of the faith and credit of the State or any political subdivision thereof. As such, the balance of outstanding conduit bonds is not reflected on the I-Bank's financial statements.

7. RETIREMENT PLAN

Plan Description

All of the employees of the I-Bank participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's Comprehensive Annual Financial Report as a pension trust fund. CalPERS administers the Public Employees' Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Departments and agencies within the State of California, including the I-Bank, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report may be obtained by writing California Public Employees' Retirement Systems, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

The pension plan provides retirement benefits, survivor benefits, and death disability benefits based upon the employee's years of credited service, age and final compensation. Vesting occurs after five or ten years of credited services depending on the benefit tier. Employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit, payable monthly for the remainder of their lives. Benefit provisions and all other requirements are established by State statute.

Funding Policy

For the years ended June 30, 2008 and 2007, the State had elected to contribute the full retirement contribution for State Miscellaneous Tier 1 and State Miscellaneous Tier 2 active members.

The I-Bank is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERF Board of Administration. The required contribution rates for the years ended June 30, 2008 and 2007 were 16.633 and 16.977%, respectively for State Miscellaneous Tier 1 and 16.565 and 16.778%, respectively, for State Miscellaneous Tier 2. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Contributions, annual pension costs and trend information attributable to employees of the I-Bank for the fiscal year ended June 30, 2008, are not determinable at the I-Bank level. On April 19, 2005, the Board of Directors of CalPERS adopted a new policy for calculating the actuarial value of assets, spreading market value asset gains and losses over 15 years (rather than 3 years, as had been the practice) and changing the corridor limits for the actuarial value of assets from 90 % – 110 % of market value to 80 % – 120 % of market value. In addition, CalPERS will calculate the annual contribution amount with regard to gains and losses as a rolling 30 year amortization of all remaining unamortized gains or losses as opposed to the 10 % of such gains and losses. These changes are anticipated to reduce employer rate volatility by 50 %. Additional information is reported at a statewide level in the State of California's Comprehensive Annual Financial Report.

Post-Employment Benefits Other than Pension

In addition to the pension benefits provided by the State, the State also provides post-retirement health care and dental benefits, in accordance with Section 22754 (g) of the State Government Code, to all employees who retire from the State on or after attaining certain age and length of service requirements. A portion of the State's post-retirement benefit costs have been allocated to the CIEDB Fund as follows:

Annual required contribution	$	359,000
Interest on net OPEB obligation		0
Adjustment to annual required contribution		0
Annual OPEB cost (expense)		359,000
Contributions made		(123,00)
		0
Increase in net OPEB obligation		236,000
Net OPEB obligation – beginning of year		0
Net OPEB obligation – end of year	$	236,000

Additional disclosure detail required by Government Accounting Standards Board Statement No. 45, regarding post-retirement benefits are presented in the financial statements of the State of California for the year ended June 30, 2008.

8. COMMITMENTS AND CONTINGENCIES

In June 2003, the I-Bank approved a preliminary loan guarantee commitment for the Imperial Irrigation District (IID) related to the potential future issuance of revenue bonds by IID, which may finance a water supply project consisting of water conservation measures needed to implement the IID and the San Diego County Water Authority (SDCWA) 45-year water conservation and transfer agreement (Transfer Agreement) for the transfer of up to 200,000 acre-feet per year of water supply to the SDCWA based upon IID water conservation measures. Subsequently, the IID, the SDCWA, the Metropolitan Water District of Southern California and the Coachella Valley Water District negotiated terms of a Quantification Settlement Agreement, which includes a series of agreements regarding the settlement of disputes among the parties arising from the Transfer Agreement and ensures that the State continues to receive the maximum amount of water from the Colorado River. During the 2003-2004 fiscal year, the I-Bank transferred $20 million from the CIEDB Fund to the Guarantee Trust Fund in conjunction with the preliminary loan guarantee commitment for the IID. The preliminary loan guarantee commitment shall expire December 31, 2009, unless extended in writing by the Board.

9. SUBSEQUENT EVENTS

On June 23, 2008, MBIA Inc. (INC) notified the I-Bank and the Trustee , that the financial guarantor of the provider of the 2005 ISRF Program Bonds collateralized guaranteed investment agreement (MBIA Insurance) in connection with the investment of the 2005 ISRF Program Bonds reserve funds was downgraded to A2 from Aaa by Moody's. This ratings downgrade caused INC to be out of compliance with the collateralized investment agreement's minimum provider guarantor rating and obligated INC to cure the downgrade. INC subsequently notified I-Bank its intent to terminate the agreement. Considering these factors, I-Bank consented to an amendment to the agreement that allowed for an elective termination without a default. On August 14, 2008, the agreement was effectively terminated and the I-Bank was paid $4,393,015, which represented a return of principal, the payment of accrued interest, and included a make-whole payment of $400,000.

On August 20, 2008, Fitch Ratings upgraded the rating assigned to the ISRF Program Bonds to AA+ from AA, and on August 21, 2008, and Standard & Poor's similarly upgraded the ratings.

On September 16, 2008, AIG Matched Funding Corp. (AIGMFC) notified the I-Bank that the financial guarantor of the investment provider (American International Group, Inc.) for the 2004 ISRF Program Bonds collateralized guaranteed investment agreement in connection with the investment of the 2004 ISRF Program Bonds reserve funds and float funds was downgraded to A2 from Aa3 by Moody's and A- from AA- by S&P. These rating downgrades caused AIGMFC to be out of compliance with the collateralized investment agreement's minimum provider guarantor rating and obligated AIGMFC to cure the downgrades or terminate the agreement. AIGMFC subsequently notified the I-Bank of its intent to terminate the agreement. On September 30, 2008, the Series agreement was effectively terminated and I-Bank was paid $3,535,954.46 representing a return of principal and the payment of accrued interest for the reserve fund. No amount was due and owing for the float funds on that date.

On September 24, 2008, the I-Bank issued Infrastructure State Revolving Fund Revenue Bonds, Series 2008 (2008 ISRF Program Bonds) in the principal amount of $48,375,000, bearing 2.60% to 5.00% interest payable bi-annually, and maturing on October 1, 2028. Proceeds from the sale of the 2008 ISRF Program Bonds will be used to fund additional Loans and to refinance Loans receivable previously funded with cash.